



Lake Ontario Cement Limited
and Subsidiary Companies

Annual Report 1978



HOWARD

JAN 11 1979

McGILL UNIVERSITY

Lake Ontario Cement Limited

Directors

William M. Bateman – Toronto, Ontario
President, Lake Ontario Cement Limited

Rudolph P. Bratty, O.C. – Toronto, Ontario
Senior Partner, Gambin, Bratty, Chiappetta,
Morassutti, Caruso

Edward P. Curtis, Jr. – Rochester, New York
President, Genesee Public Affairs Inc.

John D. Fowler – Toronto, Ontario
Executive Vice-President,
Lake Ontario Cement Limited

Basil H. Hall – Toronto, Ontario
Municipal Consultant

Donald J. Matthews – London, Ontario
Chairman and Chief Executive Officer,
The Matthews Group Limited

E. Bruce McConkey – Toronto, Ontario
Vice-President, Finance,
Denison Mines Limited

John A. Mullin, O.C. – Toronto, Ontario
Partner, Fraser & Beatty

Charles D. Parmelee – Toronto, Ontario
Vice-President, Corporate Affairs,
Denison Mines Limited

Stephen B. Roman – Toronto, Ontario
Chairman and Chief Executive Officer,
Denison Mines Limited

Officers

Stephen B. Roman, Chairman of the Board

W. M. Bateman, President

J. D. Fowler, Executive Vice-President

D. R. T. White, Vice-President
Administration and Finance and Secretary

B. T. Price, Vice-President – Operations

R. P. Sutherland, Treasurer

D. S. Campbell, Assistant Secretary

C. A. Gibbs, Assistant Treasurer

Head Office

2 Carlton Street, Toronto, Ontario

Subsidiaries

Aetna Cement Corporation,
Essexville, Michigan

Primeau Argo Block Co. Limited,
Rexdale, Ontario

Rochester Portland Cement Corp.,
Rochester, New York

Auditors

Coopers & Lybrand, Toronto, Ontario

Transfer Agent and Registrar (Canada)

Guaranty Trust Company of Canada,
Toronto, Ontario

Transfer Agent (U.S.A.)

First National City Bank, New York, N.Y.

Registrar (U.S.A.)

Marine Midland Bank, New York, N.Y.

Summary of contents

Markets of divisions and subsidiaries

Cover

This "jumbo" cement tanker entering a major highway interchange on the outskirts of Toronto is one of many used by the Canadian Cement Division to deliver bulk cement to major customers such as construction contractors and ready-mixed concrete firms. The interchange shown here is typical of large construction projects that consume thousands of metric tonnes of cement. This Report identifies the market areas and product groups of the Company's various divisions and subsidiaries.

Financial highlights Page 1

Report to shareholders Page 3

Financial trends at a glance Page 5

Organization for marketing Page 6

The Company's two main operating divisions and three principal subsidiary companies cover well-defined geographic markets in Canada and the United States. In Canada two divisions and one subsidiary serve various Ontario regions. Significant areas of the States of New York and Michigan are served by two U.S. subsidiaries.

Canadian Cement Division Page 8

This Division manufactures and markets cements under the Lake Ontario Cement brand for various construction applications, the biggest proportion to producers of ready-mixed concrete. Total cement consumption in Ontario for 1978 is expected to be down slightly from the year before.

Premier Concrete Products Page 9

This Division serves the construction industry with ready-mixed concrete from seven plants in Ontario, also concrete block and aggregates. Sales volume for the year was up by 10% from the prior year.

Rochester Portland Cement Corp. Page 10

This subsidiary markets regular and special cements throughout Western New York State, using the brands Rochester Portland Cement and Mohawk Valley Cement. Shipments to customers in 1978 increased by approximately 4% over 1977.

Aetna Cement Corporation Page 11

Aetna serves the central part of the State of Michigan with Portland and masonry cements, and most users are ready-mixed concrete producers. The Company benefited from a strong market demand in 1978 due to a rapid upturn in building and construction in the State.

Primeau Argo Block Co. Limited Page 12

Varied styles of concrete block and brick are manufactured at three plants and marketed in Southern Ontario. Brick is produced in a variety of colours and is enjoying increased acceptance for both residential and commercial use.

Consolidated financial statements Page 13

Balance sheet 14
Auditors' report 14
Statement of earnings 16
Statement of retained earnings 16
Statement of changes in financial position 17
Notes to financial statements 18

Ten year financial summary Page 22

Corporate information Cover

Year ended December 31

1978

1977

Financial highlights

Operating results

Sales	\$78,363,743	\$64,641,278
Net earnings	3,149,910	2,007,461
Per common share	73.2¢	46.7¢
Dividends paid	860,492	860,492
Per common share	20.0¢	20.0¢
Funds generated from operations	6,971,411	7,117,495
Expenditures for fixed assets	2,982,485	1,848,384
Depreciation and depletion	3,791,633	4,023,874

Financial position at year end

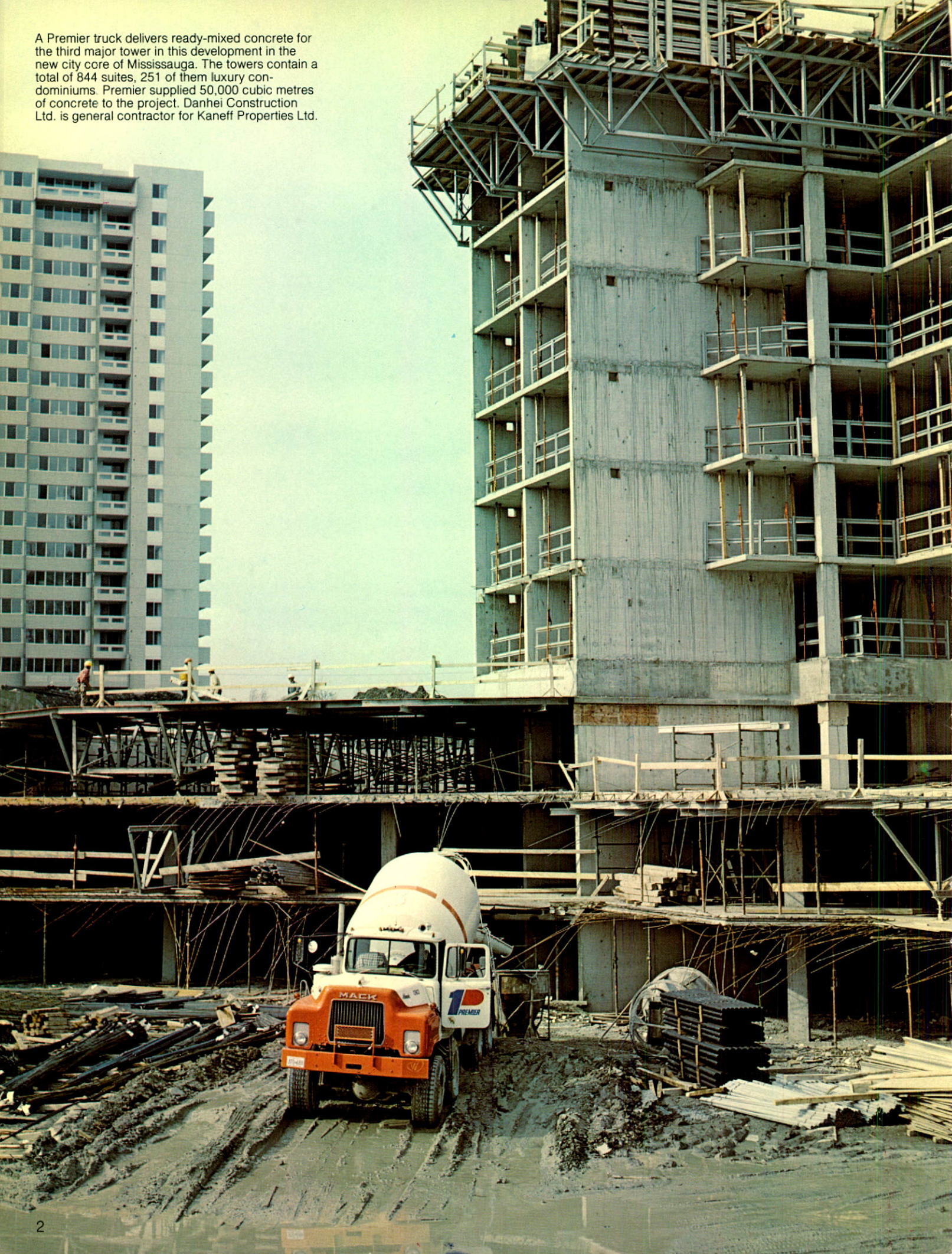
Current assets	\$29,149,854	\$25,869,454
Current liabilities	12,143,271	10,891,713
Working capital	17,006,583	14,977,741
Long-term debt (including amounts due within one year)	21,405,365	22,482,230
Shareholders' equity	34,288,455	31,999,037
Per common share (after full provision for deferred income taxes)	7.01	6.48

Quarterly sales and net earnings

(dollars in thousands except per share in cents)

	Sales		Net earnings or (loss)		Net earnings or (loss) per share	
	1978	1977	1978	1977	1978	1977
1st quarter	\$ 7,624	\$ 5,816	\$(1,409)	\$(1,145)	(32.7)¢	(26.6)¢
2nd quarter	24,388	20,254	1,580	1,237	36.7	28.8
3rd quarter	26,881	21,720	2,051	1,405	47.7	32.7
4th quarter	19,471	16,851	928	511	21.5	11.8
	\$78,364	\$64,641	\$ 3,150	\$ 2,008	73.2¢	46.7¢

A Premier truck delivers ready-mixed concrete for the third major tower in this development in the new city core of Mississauga. The towers contain a total of 844 suites, 251 of them luxury condominiums. Premier supplied 50,000 cubic metres of concrete to the project. Danhei Construction Ltd. is general contractor for Kaneff Properties Ltd.



Report to shareholders

On behalf of the Board of Directors of Lake Ontario Cement Limited, I am pleased to present the Annual Report of the Company for the year ended December 31, 1978.

Financial results

Consolidated sales for the year set a new record at \$78,363,743 and were an increase of 21.2% over the 1977 level of \$64,641,278. Consolidated earnings increased by 56.9% to \$3,149,910 (73.2¢ per share) from \$2,007,461 (46.7¢ per share) for the previous year. The significant improvement in operating results was due primarily to a strong demand for cement in the Company's market areas in the United States coupled with the benefits of the substantial discount on the Canadian dollar compared to the United States currency. The increase in sales reflects the broad geographical markets of the Company in the Great Lakes area and the inclusion for the first time for a full year of the sales of Aetna Cement Corporation in Michigan.

The first quarter of the year was very slow in all areas because of a severe winter but sales and earnings rebounded strongly in the second and third quarters reflecting expanding construction activities in both Canada and the United States.

Operations—cement

The Company has its primary cement and clinker manufacturing plant in Picton, Ontario, and ships cement throughout the Province of Ontario and into western New York State. Clinker is transported by self-unloading vessels to the plant of a subsidiary, Aetna Cement Corporation, located at Essexville, Michigan, where it is processed into cement and marketed throughout central Michigan.

Total quantity of shipments of cement to customers in 1978 increased some 10% from 1977 levels. This increase reflected a softer Ontario market, an improving market in western New York State and a strong Michigan market. The Michigan operation of the Company—Aetna Cement Corporation—commenced in April, 1977. Accordingly, 1978 results reflect a 12 month operation compared to only eight months in 1977.

The United States markets of the Company were enhanced by the strength of the cement and construction market in



William M. Bateman, left, is President and Stephen B. Roman is Chairman of the Board.

the west and south-western parts of the country. Cement shortages occurring in these areas intensified an existing strong demand for cement in the Great Lakes market areas.

Operations—concrete products

Premier Concrete Products is a division serving the Ontario market in ready-mixed concrete and concrete block. This Division increased its sales volume by approximately 10% in 1978 over 1977 levels. Although there was an improvement in operating results, the ready-mixed concrete business continues to be generally unsatisfactory in terms of profit margins. The Company has confidence in its long term future, however, with two million dollars having been spent in the last five years to modernize the concrete delivery truck fleet and over two million dollars having been spent in the same period for other new and additional plant and equipment.

Primeau Argo Block Co. Limited

This subsidiary company manufactures concrete block and concrete brick and serves the Metropolitan Toronto region. Primeau Argo Block achieved sales and earnings roughly comparable to 1977

levels. The concrete block market is relatively stable and this company is investigating additional product lines. Concrete or "Calcite" brick is a product that offers considerable attraction for growth potential and use in the housing markets as it has a cement rather than a clay base. Primeau Argo Block has installed special equipment to manufacture this product and entered this growing market in 1978.

Manufacturing facilities—cement

The cement manufacturing plant at Picton, Ontario, was expanded with the addition of a preheater kiln and appropriate ancillary equipment in 1976. During equipment start-up, there were severe mechanical problems which adversely affected earnings in 1976. During 1978, the plant was operating at close to effective capacity for the year and the Company is examining alternatives to provide further production capability.

The Essexville, Michigan, plant is being used at the present time as a clinker grinding plant and its capacity is still not fully utilized. The Company anticipates that there will be continuing growth in the Michigan area.

Capital expenditures

In 1978, the Company spent \$2,982,485 on plant and equipment additions compared to \$1,848,384 in 1977. These expenditures were primarily for continuing modernization and replacement of equipment and installation of certain environmental improvement facilities. This programme will continue in 1979.

The capital programme for the Company was relatively low in 1978, reflecting a consolidation phase after the major expansion at the Picton plant in 1975 and 1976 and the acquisition of the Aetna Cement manufacturing plant in 1977. The Company in the coming year is expanding substantially its capital budget in order to improve efficiency in all areas of operations and to install additional environmental protection equipment.

Financial position

The financial condition of the Company is strong with consolidated working capital at December 31, 1978 of \$17,006,583 compared to approximately \$15,000,000 at the same time last year. The Company has repaid current bank loans and is soundly based for future expansion and acquisitions.

Dividends

During the year 1978, the Company paid dividends aggregating 20¢ per share for a total of \$860,492.

Cement dumping investigation

As previously reported, the U.S. International Trade Commission held hearings to investigate complaints of dumping by Canadian cement manufacturers. The U.S. Commission found the importation of Portland cement from Canada was not injuring or likely to injure the U.S. cement industry and therefore no dumping duties would be imposed against the Company's exports of cement to the U.S. This finding was issued in September, 1978 and one U.S. company has subsequently appealed the decision of the Commission. This appeal is expected to be a lengthy process and

is not expected to be successful. The Company understands, however, that should the appeal be successful, there would not be any retroactive dumping penalties applied. It is the Company's opinion that if such penalties were applied in the future, they would not have a significant adverse effect on the Company's export business.

Legal action

The Company has previously reported to the shareholders on the losses occasioned in 1976 by the failure of certain pieces of equipment supplied in connection with the expansion of the Company's Picton, Ontario cement plant. The Company has commenced legal action against the supplier of this equipment, Joy Manufacturing Company (Canada) Limited, for damages arising out of these failures.

Outlook

A review of the Company's markets reveals a generally positive situation for the coming year. Cement consumption in Ontario is expected to increase moderately over 1978 levels. In the United States it is expected that the construction market will continue to be strong in spite of monetary restraints imposed by the Federal Administration. However, the cement shortages in certain regions of the United States will be moderated and total cement consumption is expected to be down slightly from 1978 levels.

The Company's export sales are expected to continue to be enhanced by the significant discount on the Canadian dollar. Profits will be somewhat affected by the high interest rates on borrowed funds and there is concern that with the termination of the Canadian Anti-Inflation Programme there may be inflationary increases in the cost of labour and materials.

Directors

In 1978, Mr. Roderick M. MacDougall, President of the New England Merchants National Bank of Boston, Mass., resigned as a Director of the Company. The Directors and Management of the Company wish to take this opportunity to express their sincere appreciation to Mr. MacDougall for his many contributions as a Director of the Company.

At the Annual Meeting of the Company held on February 8, 1978 two new

Directors were elected to serve on the Board of the Company. Mr. Rudolph P. Bratty, Q.C. is a senior partner with the Toronto law firm of Gambin, Bratty, Chiappetta, Morassutti, Caruso. Mr. Donald J. Matthews is Chairman and Chief Executive Officer of The Matthews Group Limited, a London, Ontario based land development and building construction company.

Personnel

At the end of 1978, Mr. A. J. Primeau retired from active management of Primeau Argo Block Co. Limited. Mr. Primeau has been with Primeau Argo Block since its inception and has been an influential leader in the concrete block industry in Canada. He is a man of considerable and diverse talents. In addition to his business activities, he was a player and coach of the Toronto Maple Leaf Hockey Team and is a member of the Canadian Hockey Hall of Fame. His contributions as both a sportsman and businessman in Canadian society have been significant and the Directors of the Company wish him the very best on his retirement.

The Board of Directors wishes to express its thanks to the employees of the Company for their contribution during the year and to its customers for their continued support.

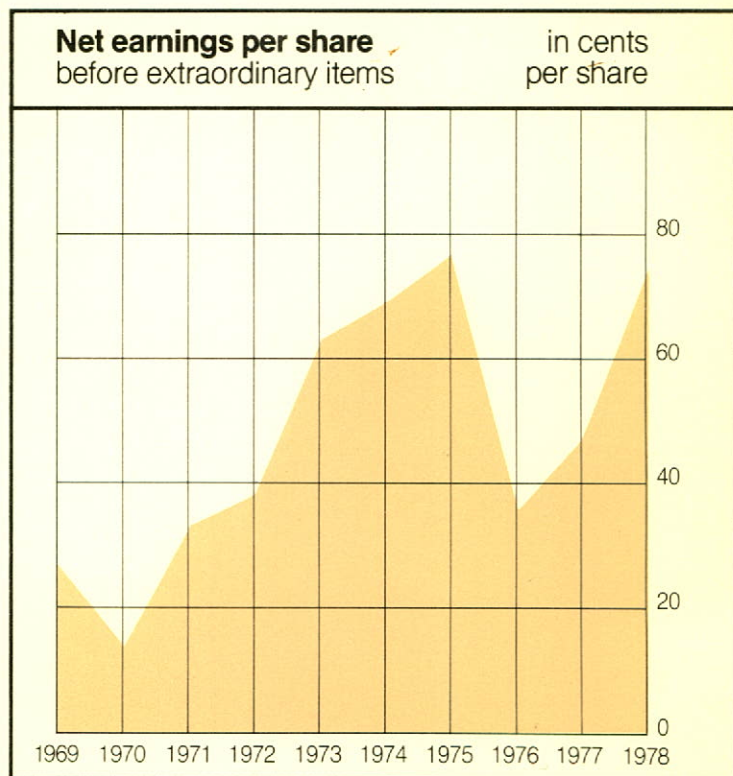
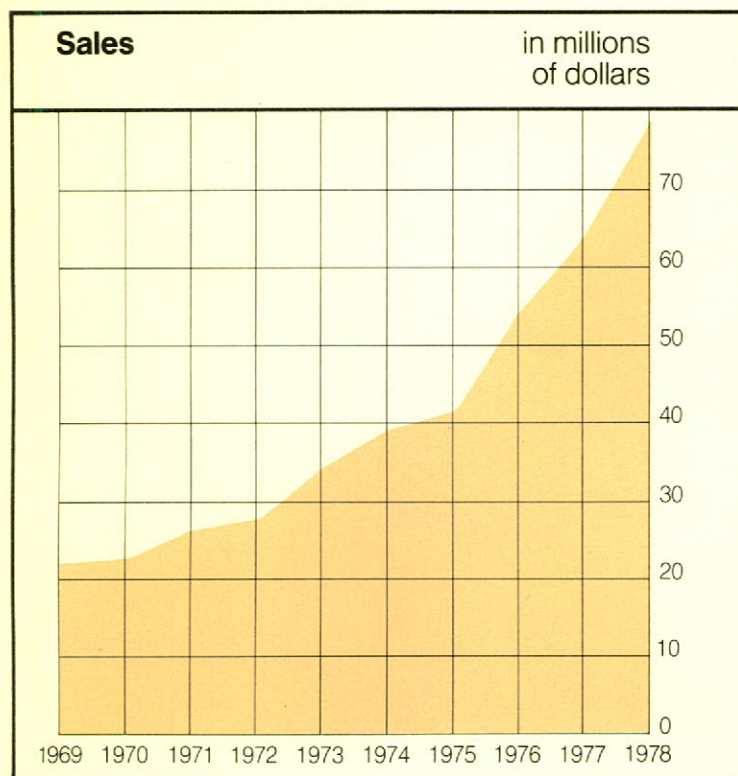
On behalf of the Board of Directors,



W. M. Bateman
President

January 11, 1979

Financial trends at a glance



D. R. T. White is Vice-President Administration and Finance and Secretary.

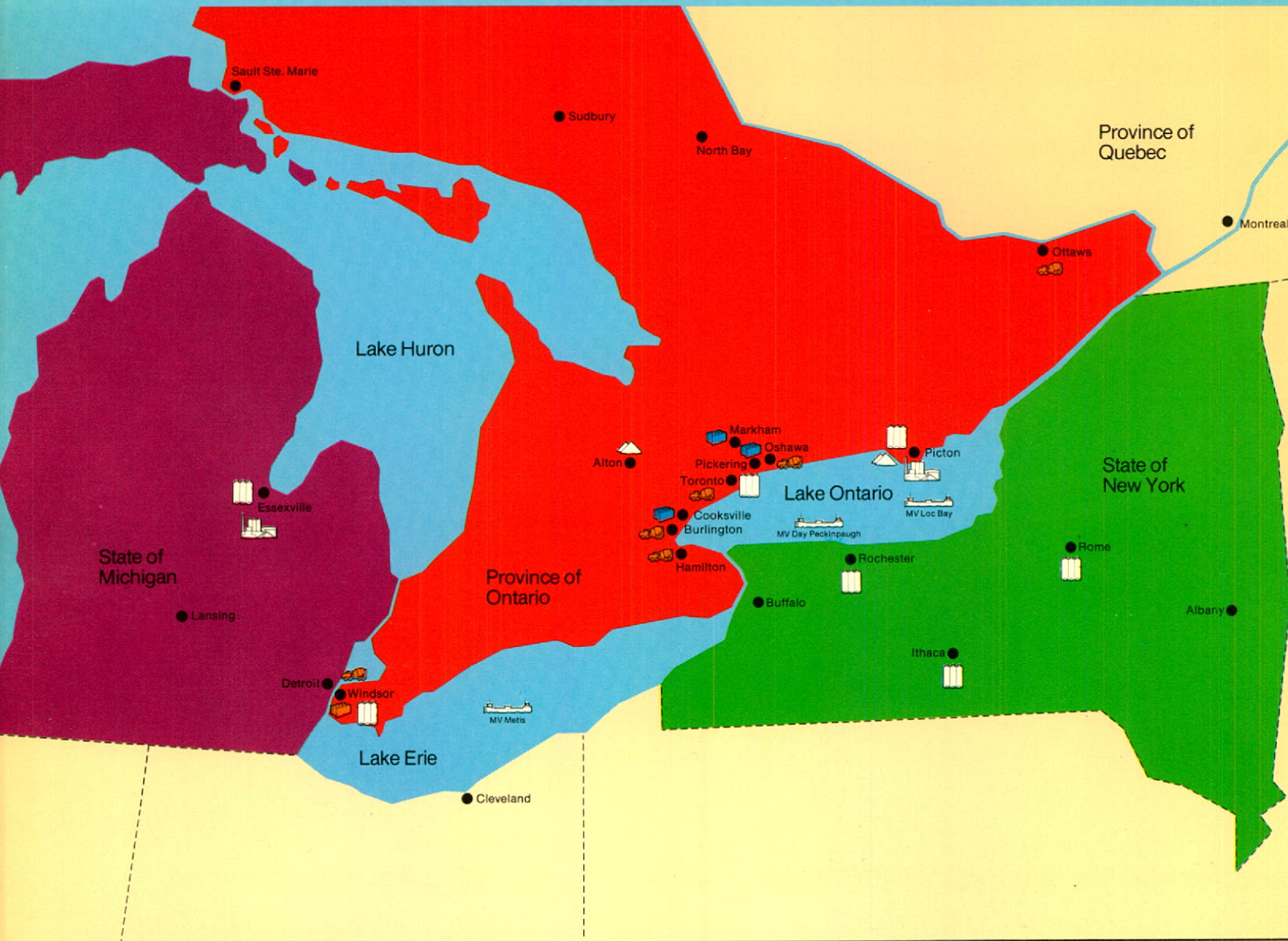


D. S. Campbell, left, is Assistant Secretary, R. P. Sutherland Treasurer and C. A. Gibbs is Assistant Treasurer.

Organization for marketing

Legend

-  Cement manufacturing plant
-  Ready-mix operations
-  Concrete products plants
-  Cement distribution depots
-  Bulk cement carriers
-  Aggregate operations



In the areas served by Lake Ontario Cement Limited and its divisions and subsidiaries in Canada and the United States, total annual cement consumption amounts to 7,000,000 tonnes. The Company enjoys a substantial market share in each of these areas. Though the proportion varies from area to area, the Company's share averages about 20% of market overall.

The Company is organized on both regional and product lines. Cement is marketed exclusively on a geographic basis. Lake Ontario Cement is the brand name used throughout Ontario. Rochester Portland Cement Corp. markets cement throughout Western New York State under both its own and the

Mohawk Valley names. The Aetna name is well known to cement users in Central Michigan.

The Premier Concrete Products Division serves the major population areas of Ontario, principally with ready-mixed concrete. Primeau Argo Block supplies concrete brick and block in and beyond the Greater Toronto area. Premier, in addition, serves a wider area with block and sand and gravel supplies, two product areas where the division has traditionally enjoyed a market advantage.

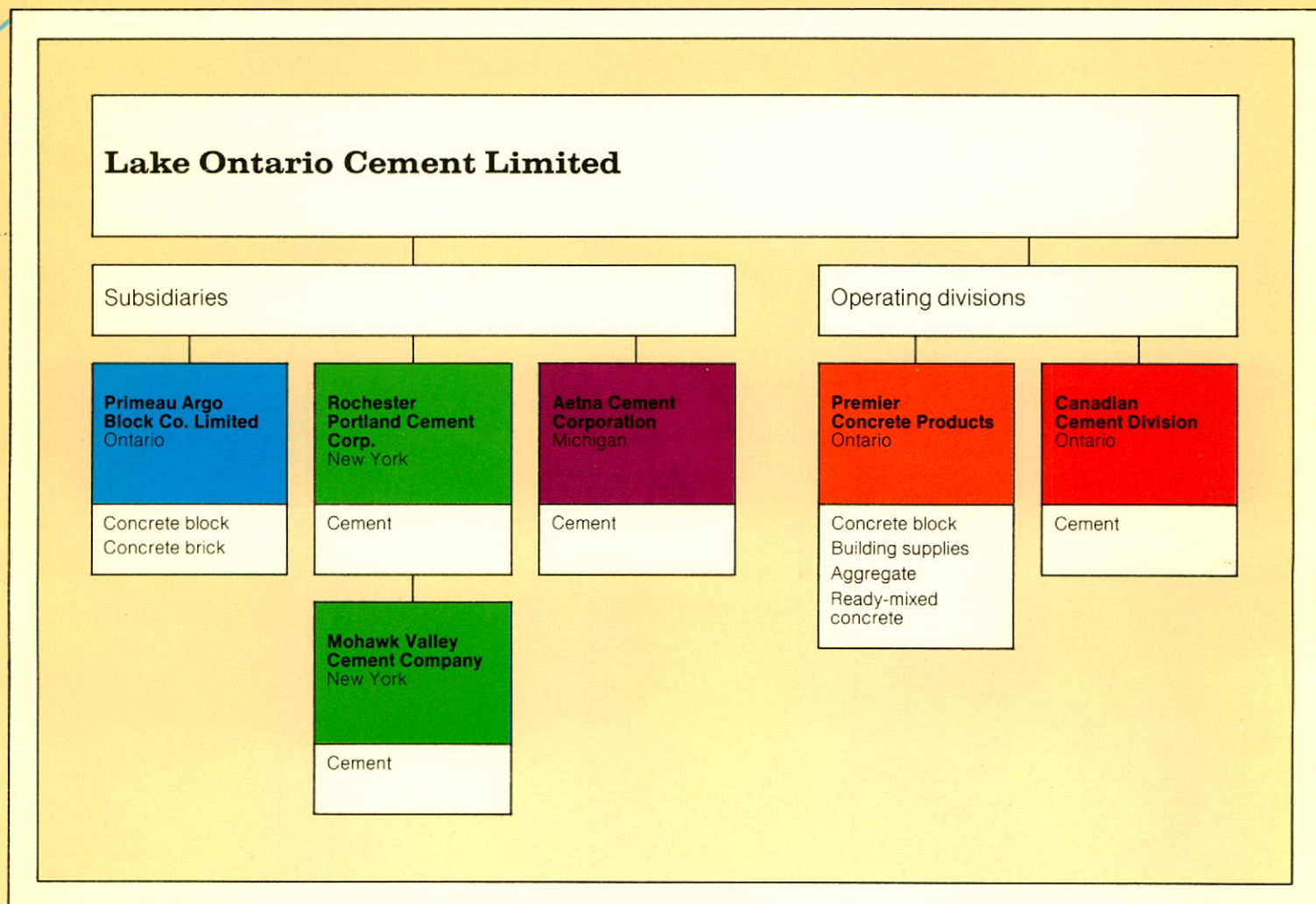
While the Company supplies the market with a variety of specialty cements that meet, for example, the exacting needs of prestressed concrete beam manufacturers, by far the greatest

requirement is for regular Portland cement. This is mixed with sand, stone and water to form concrete, the basis of all major construction from high-rise buildings and highways to heavy construction projects like sewage plants and power stations.

The products of Premier and Primeau Argo are well identified in their market areas. Premier has grown rapidly over the last 15 years through expansion of its plant, and by streamlining production methods and marketing operations. The division is now a major supplier in several competitive segments of the construction products market of Southern Ontario.

Distribution areas

-  Canadian Cement Division
-  Rochester Portland Cement Corp.
-  Aetna Cement Corporation
-  Premier Concrete Products
-  Primeau Argo Block Co. Limited



Primeau Argo, historically the largest single producer of concrete block in Ontario, has expanded with the spread of residential and commercial construction in the "golden horseshoe" around western Lake Ontario.

Service is key

Considering that cement and concrete are basic commodities that do not vary widely in quality from supplier to supplier, the most important factors to the customer are delivery and price. A third factor is service, and the Company and its marketing units are particularly proud of the high quality of technical service, follow-up and, as necessary, financial counsel that it offers users of its products.

All sales people are well oriented in the qualities and applications of the products they represent, and they in turn are backed by experienced field service managers located at important geographic centres. Users of cement and concrete value the advice of these experts, for example, now that concrete is placed in winter conditions to a far greater extent than ever before. Many calls for aid come from customers concerned with the varying peculiarities of different aggregates and mixes. Problems that can arise in these aspects can be costly to manufacturers of precast products like hydro poles, decking, septic tanks, man-holes and catchbasins. The results can affect setting time and the final finish,

colour and texture of the products, and expert advice from the Company's professionals is rewarded with continuing orders.

Additional help and information also is made available to customers through the Canadian Portland Cement Association and the Portland Cement Association of the United States, which has extensive research and test facilities. Lake Ontario Cement is one of many companies which supports the Association in its industry-wide marketing, promotion and research functions.

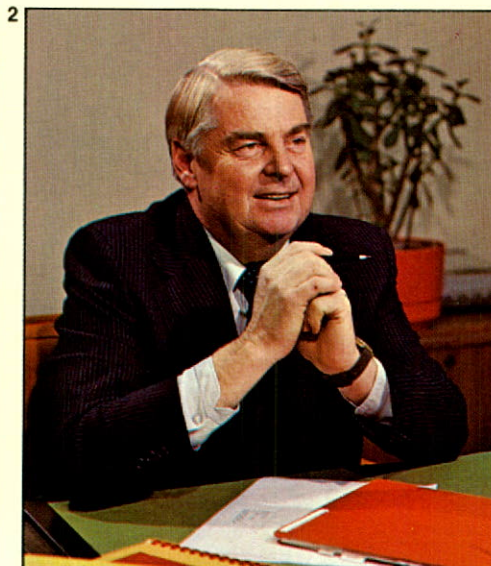
Canadian Cement Division

1 J. D. Fowler is Executive Vice-President.

2 B. T. Price is Vice-President—Operations.

3 The Company supplied 19,350 cubic metres of concrete for two 24-hour continuous pours for these silos at Windsor for United Cooperatives of Ontario. One continuous pour lasted seven days, the other eight days to completion. The contractor is Ellis-Don Limited.

4 In all, 100,000 bags of Lake Ontario masonry and Portland cement were used in the third and fourth phases of construction of the mammoth Place du Portage complex in Hull, opposite the national capital. Contractors George & Amussen Limited and Hull-Ottawa Masonry were active in both phases, and general contractor for the fourth phase was Cap Form Inc.



Business description

The Canadian Cement Division markets its products throughout Ontario. These include normal Portland cement, used in standard construction; pronto cement, used primarily by manufacturers of pre-cast concrete products; high early cement, used primarily in prestressed concrete manufacturing, where early strength is required for form stripping; and masonry cement for use in masonry construction. By far the largest percentage of product is sold to ready-mixed concrete manufacturers who, on a national scale, use about 65% of the cement consumed.

Cement is distributed from depots at Ottawa, Picton, Toronto, London and Windsor. The depots at Windsor and Toronto are supplied by lake vessels. As well, storage is available at the manufacturing plant at Picton. These facilities allow the Company to provide the fast service required in this highly competitive industry.

Current operations

Total cement consumed in Ontario in 1978 was slightly less than in 1977, but the Company's shipments in the Province were close to 1977 levels. Price increases achieved during the year were sufficient to offset increased costs.

Outlook

The outlook for 1979 is somewhat more optimistic. This will be an election year in Canada and, generally, election years are good for business. Cement consumption in Ontario is expected to increase slightly over 1978.

An announced price increase effective April 1, 1979 should maintain margins, but there is a great deal of concern about cost increases facing the industry. With wage and price controls coming to an end, excessive increases could adversely affect margins.

Premier Concrete Products

1 Ken Bruce is Vice-President and General Manager of the Premier Concrete Products Division.

2 & 3 More than 16,000 cubic metres of Premier ready-mixed concrete was supplied to George Wimpey Construction Limited, the general contractor for the extension of the Hamilton sewage treatment plant. Premier supplied the concrete for the first phase of this plant.

4 Premier supplied 7,000 cubic metres of ready-mixed concrete for the structure of this luxury 80-suite apartment block at Oakville. Builder is Dena Developments Inc.



Business description

Premier Concrete Products supplies the construction industry with ready-mixed concrete from seven plants in Ontario, located at Oshawa, Scarborough, Toronto, Mississauga, Hamilton, Ottawa and Windsor, with concrete block and building supplies in the Windsor area, and concrete aggregates in the Toronto area from a plant at Alton. The ready-mixed concrete industry is the largest single industrial user of cement in Ontario.

Current operations

Projects supplied in 1978 included housing, swimming pools, service stations,

hospitals, office buildings, highway construction, hydro transmission lines, grain silos and churches. Sales volume for the year increased by 10% over 1977 in spite of the relatively slow construction activity in Ontario.

The Division over the past five years has endeavoured to offset the cost of labour by increasing the capacity of trucks and mixers in its fleet and has invested \$2,000,000 in newer and more efficient equipment in the period 1974-78. In keeping with the changing technology of the industry, a new computer controlled dispatch system is being installed to serve the Toronto area. This system will provide for better customer service and tighter control of shipping operations.

The available reserves of sand and gravel at the Alton pits are almost depleted and planning was started during the year for the opening of a new pit in Erin Township. The phasing out of the Alton operation and the phasing in of the Erin plant will take several years to accomplish.

Outlook

The market outlook for 1979 anticipates a comparable volume to 1978, reflecting the generally moderate rate of construction activity in Ontario.

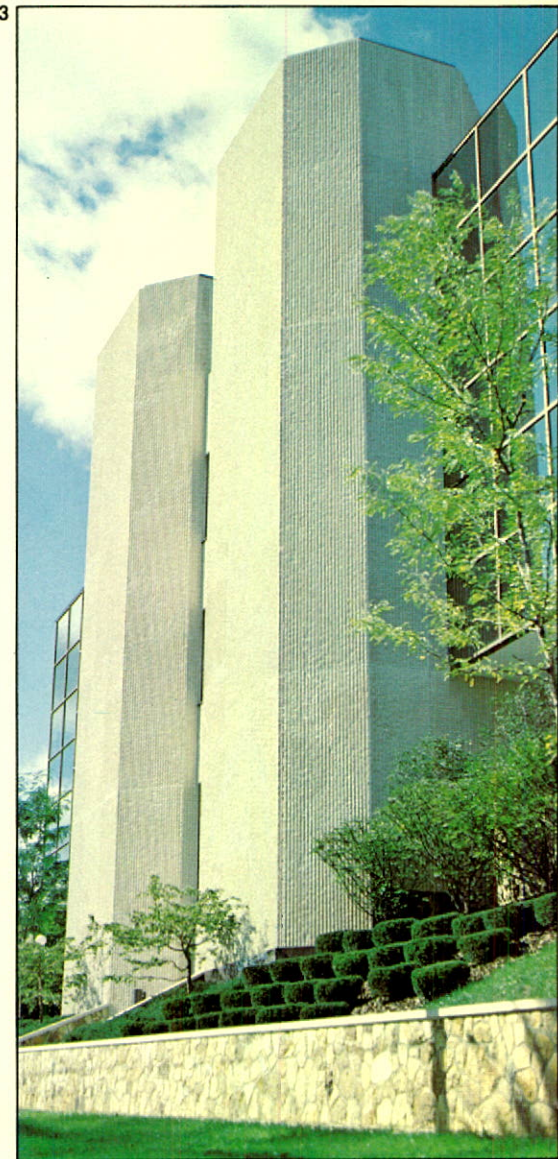
Rochester Portland Cement Corp.

1 R. L. Forde is President of Rochester Portland Cement Corp.

2 These silos for the Philip Morris Incorporated bottling plant near Auburn, New York, were constructed using a 24-hour-a-day slip form placement. The total pour lasted 10 days. Ready-mixed concrete was supplied by a Rochester Portland customer, The W. F. Saunders Company. The plant is managed by Miller Brewing Company, a Philip Morris operating company, and supplies Miller's brewery in Fulton, N.Y.

3 Rochester Portland cement supplied to a ready-mixed concrete producer was used in construction of this handsome building at Utica, New York, for the Teamsters Union Local 182 Health & Welfare Fund. The concrete supplier was Carparelli Brothers.

4 Rochester Portland cement was used in construction of these corporate offices at Rochester for the Harris Corporation R. F. Communications Division. Supplier of the ready-mixed concrete was B.R. DeWitt Company.



Business description

Rochester Portland is a major cement supplier in Western New York State. The Company has strategically located shipping terminals at Rochester and Rome, New York, supplied by ship from the Picton, Ontario, plant. The terminals maintain inventories of regular Portland cement, high early strength cement, masonry cement and special cements for selected uses. Products are shipped in both bulk and bags. Customers include producers of ready-mixed concrete, pre-stressed concrete, concrete blocks and related products, paving contractors and building material suppliers.

Current operations

Company shipments in 1978 increased by approximately 4% over 1977 while industry cement consumption remained virtually unchanged. Residential building was impeded by a tight mortgage money supply but highway paving and environmental construction projects registered gains. Cement prices were increased by approximately 7% during the year which partially helped to offset spiralling costs fueled by inflation. The Company recently completed shipments on a huge sewage treatment plant complex at Squaw Island, Buffalo, New York. This project, which required three years for completion, was the largest Western

New York construction project in recent years and consumed 33,000 tonnes of cement.

Outlook

The market outlook for 1979 is encouraging. Business conditions and cement demand in Western New York are expected to approximate 1978 levels. Sizeable highway paving commitments are scheduled for 1979 shipment coupled with the expectation of solid order demands from regular customers. Modest cement price increases are expected to become effective during the year.

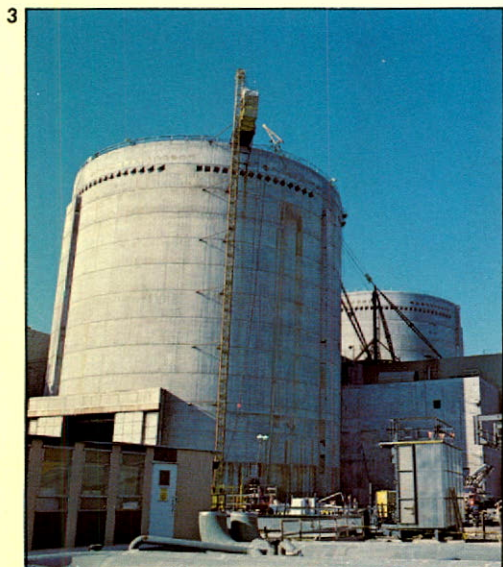
Aetna Cement Corporation

1 I. M. MacLachlan is President of Aetna Cement Corporation.

2 Wilder Road is the main interchange between the thumb area of Michigan and the north-south Interstate-75. Aetna supplied 4,500 tonnes of cement for this project. General contractor was Ministrelli Construction.

3 Aetna will have supplied approximately 50,000 tonnes of Portland cement for the Midland Nuclear Power Plant by the time this Michigan project is completed in 1982. Champion Incorporated produces the concrete at the job site. Prime contractor is Bechtel Corporation.

4 An Aetna customer, Robert Gage Ready Mix Company, provided concrete for the Independence Bridge across the Saginaw River. Aetna supplied 4,700 tonnes of Portland cement for the project.



Business description

Aetna receives all its clinker by ship from the Lake Ontario Cement plant at Picton and grinds this clinker into cement. The Aetna plant at Essexville, Michigan, is 90 miles north of Detroit and in the centre of the three-city region—Saginaw, Midland and Bay City. It produces both Portland and masonry cements. The primary market is within a 75-mile radius of the plant, all in the State of Michigan. Ready-mixed concrete producers account for 70% of the market.

Current operations

After early indications of a slow growth year, the entire cement industry in Michigan was up 7.8% largely as the result of an unpredicted upturn in building and construction in Michigan and across the U.S. generally.

The rapid increase in demand, together with the closing of two large producing plants due to strikes, meant that by mid-July all customers in Michigan had to be placed on allocation. In Michigan alone housing starts were up 15.4%, industrial and commercial building was up 24.1%, public buildings were down 20.8%, and heavy construction was up 72.3%.

Outlook

The outlook for the cement business in Michigan is strong. While the Portland Cement Association forecasts cement usage in Michigan for 1979 will be up marginally, in Aetna's market area there will be a large carryover of construction of all kind, including State and highway work. The automobile industry also has forecast another banner year for 1979 and this is expected to keep housing and commercial construction at strong levels in the State.

Primeau Argo Block Co. Limited

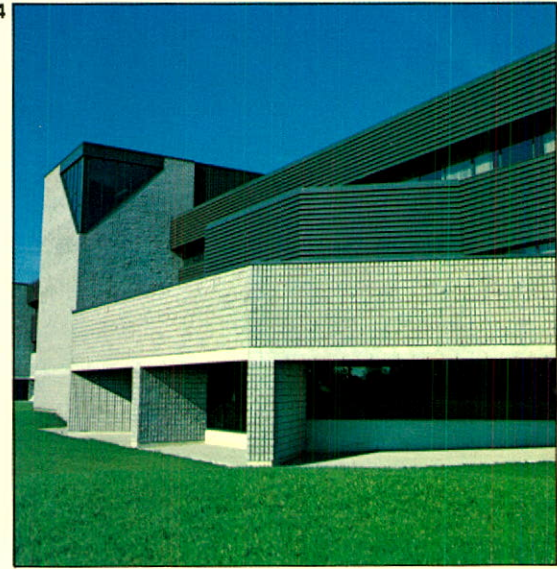
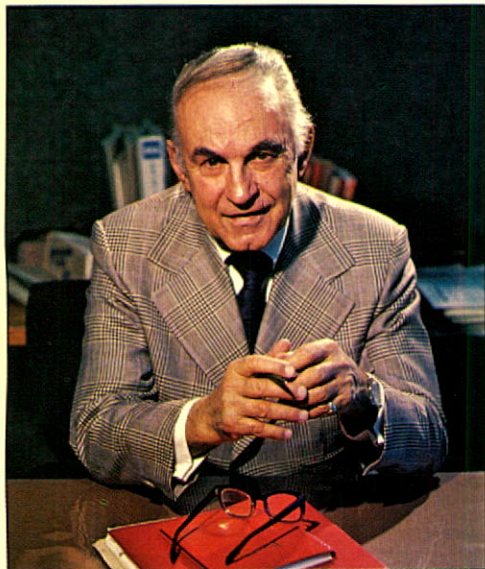
1 A. J. Primeau is Chairman of the Board of Primeau Argo Block Co. Limited.

2 R. H. Grimm is President and Chief Executive Officer.

3 Approximately 58,000 four-inch split rib eight rib blocks were specially manufactured for interior and exterior walls of the Harbour Castle Convention Centre, Toronto, constructed by Campeau Corporation. Primeau Argo used concrete mixed to match the precast facings on the neighbouring Harbour Castle Hilton Hotel.

4 Primeau Argo's popular split rib concrete block is used in both the exterior and interior walls of major buildings at the Progress Campus of Centennial College and in the interior at the Astonbee Campus. Lightweight units are used in the interior walls, normal weight for exterior.

5 Primeau Argo supplied concrete brick in six colours for these single family homes at Stouffville, a total of 30 units. The Company's brick was used in 1,000 housing starts during the year, and in 30 industrial/commercial applications.



Business description

Primeau Argo Block Co. Limited is a major producer of concrete and lightweight unit masonry in Ontario. Block produced at three plants strategically located around Metropolitan Toronto serves the construction market in the "golden horseshoe" region of western Lake Ontario.

Three major lines are manufactured. Concrete and lightweight block, concrete brick and architectural block are sold and distributed by Company trucks operating from plants in Cooksville, Markham and Pickering.

Current operations

Primeau Argo maintained its market share in 1978 despite the moderate construction volume, and continued its planned program of modernization and product diversification, primarily in brick production.

While traditionally the majority of block has been supplied to the residential market, a growing market has been developed in the commercial and industrial fields. Initial inroads in this market were obtained with architectural facings such as split rib and fluted. More recently coloured units, both in solid and range colours, have been successfully introduced.

The introduction of concrete brick has

broadened Primeau Argo's product line and its acceptance both in residential and warehouse markets has been firmly established.

Outlook

Continued introduction of new manufacturing techniques will permit broadening of the basic brick product line. The future of these attractive products will be increasingly apparent as energy costs increase, since they require less energy to produce than conventional clay bricks.

Residential activity for 1979 is expected to be unsettled and the general level of construction activity should be the same as in 1978.



Lake Ontario Cement Limited
and Subsidiary Companies

**Consolidated Financial Statements,
Notes and Summaries**
for the year ended December 31, 1978

Lake Ontario Cement Limited

Consolidated balance sheet as at December 31

Assets	1978	1977
Current assets		
Cash and short-term deposits	\$ 2,907,969	\$ 677,188
Accounts receivable	12,895,955	11,229,546
Inventories (notes 1(c) and 2)	12,995,424	13,630,991
Prepaid expenses	350,506	331,729
	29,149,854	25,869,454
Fixed assets—at cost (notes 1(d) and 3)	85,601,323	83,704,241
Less: Accumulated depreciation and depletion	37,677,712	34,578,531
	47,923,611	49,125,710
Other assets (note 4)	134,788	216,513
	\$77,208,253	\$75,211,677

Auditors' report

To the Shareholders of Lake Ontario Cement Limited

We have examined the consolidated balance sheet of Lake Ontario Cement Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario, January 11, 1979

Coopers & Lybrand, Chartered Accountants

Liabilities	1978	1977
Current liabilities		
Bank indebtedness	\$ —	\$ 4,107,243
Accounts payable and accrued liabilities	8,974,537	5,419,385
Income taxes	1,556,496	220,720
Long-term debt due within one year (note 5)	1,612,238	1,144,365
	12,143,271	10,891,713
Long-term debt (note 5)	19,793,127	21,337,865
Minority interest in subsidiary company	937,270	936,932
Deferred income taxes (notes 1(f) and 6)	10,046,130	10,046,130
	42,919,798	43,212,640
Shareholders' equity		
Capital stock (note 7)		
Authorized—5,000,000 common shares of the par value of \$1 each		
Issued—4,302,461 shares	4,302,461	4,302,461
Contributed surplus	4,880,161	4,880,161
	9,182,622	9,182,622
Retained earnings (notes 5 and 6)	25,105,833	22,816,415
	34,288,455	31,999,037
	\$77,208,253	\$75,211,677

Signed on behalf of the Board of Directors

W. M. Bateman, Director

E. B. McConkey, Director

Lake Ontario Cement Limited

Consolidated statement of earnings

for the year ended December 31

	1978	1977
Sales	\$78,363,743	\$64,641,278
Cost of sales	64,186,476	53,167,269
Gross profit	14,177,267	11,474,009
Expenses		
Selling, general and administrative	6,915,383	5,755,765
Gain on foreign exchange	(382,021)	(261,740)
Interest (note 8)	2,575,157	2,660,425
	9,108,519	8,154,450
Operating profit	5,068,748	3,319,559
Provision for income taxes (note 1(f))	1,902,000	1,262,000
Net earnings before minority interest	3,166,748	2,057,559
Minority interest in net earnings of subsidiary company	16,838	50,098
Net earnings for the year	\$ 3,149,910	\$ 2,007,461
Net earnings per common share	73.2¢	46.7¢

Consolidated statement of retained earnings

for the year ended December 31

	1978	1977
Retained earnings—beginning of year	\$22,816,415	\$21,669,446
Net earnings for the year	3,149,910	2,007,461
	25,966,325	23,676,907
Dividends	860,492	860,492
Retained earnings—end of year	\$25,105,833	\$22,816,415

Lake Ontario Cement Limited

Consolidated statement of changes in financial position

for the year ended December 31

1978

1977

Source of working capital

Net earnings before minority interest	\$ 3,166,748	\$ 2,057,559
Depreciation, depletion and amortization	3,804,663	4,037,786
Deferred income taxes	—	1,022,150
Funds provided from current operations	6,971,411	7,117,495
Working capital on acquisition of cement grinding business	—	4,462,500
Other transactions	119,695	114,754
	7,091,106	11,694,749

Application of working capital

Fixed asset additions	2,589,534	1,654,832
Long-term debt due within one year	1,612,238	1,144,365
Dividends	860,492	860,492
	5,062,264	3,659,689

Increase in working capital

Working capital—beginning of year	14,977,741	6,942,681
Working capital—end of year	\$17,006,583	\$14,977,741

Notes to consolidated financial statements

for the year ended December 31, 1978

1. Summary of accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of Lake Ontario Cement Limited and all subsidiary companies.

(b) Foreign currency translation

Current assets and liabilities are translated into Canadian dollars at year-end exchange rates. All other assets and liabilities are translated at rates prevailing when the assets were acquired or the liabilities incurred. Sales and expenses are translated at average rates prevailing during the year, except that depreciation and depletion are translated at historic rates. The gains or losses resulting from these translations are reflected in the statement of earnings.

(c) Inventories

- (i) Finished and semi-processed products are stated at the lower of average cost and net realizable value. Cost includes attributable direct costs and overheads other than depreciation.
- (ii) Raw materials, fuel supplies and maintenance and repair parts are stated at the lower of cost (generally average cost) and replacement cost.

(d) Fixed assets

Fixed assets are carried at cost less accumulated depreciation and depletion.

Depreciation charges are calculated using the straight-line method and the following rates:

Land improvements	5% to 10%
Buildings and structures	2½% to 10%
Machinery and equipment	5% to 10%
Vehicles and mobile equipment	10% to 20%

Depletion of mineral deposits is recorded on a unit of production basis using estimated reserves.

(e) Unamortized debenture expense

Debenture expense is amortized over the term of the debenture in proportion to the principal amount outstanding during each year.

(f) Income taxes

Income taxes are provided, at current rates, for all items included in the statement of earnings regardless of the period when such items are reported for income tax purposes. The principal item which results in a timing difference for financial and tax reporting purposes is depreciation. No adjustment is made to deferred income tax accounts for subsequent changes in income tax rates.

2. Inventories

Inventories consist of:

	1978	1977
Finished and semi-processed products	\$ 4,665,746	\$ 6,213,433
Raw materials and fuel supplies	4,480,265	3,218,427
Maintenance and repair parts	3,849,413	4,199,131
	\$12,995,424	\$13,630,991

3. Fixed assets

(a) Fixed assets consist of:

	1978			1977
	Cost	Accumulated depreciation and depletion	Net	Net
Land and land improvements	\$ 3,323,381	\$ 566,603	\$ 2,756,778	\$ 2,721,295
Mineral properties	2,578,742	739,227	1,839,515	1,910,034
Buildings and structures	16,420,241	5,833,351	10,586,890	11,027,011
Machinery and equipment	54,254,708	24,780,677	29,474,031	30,774,419
Vehicles and mobile equipment	9,024,251	5,757,854	3,266,397	2,692,951
	\$85,601,323	\$37,677,712	\$47,923,611	\$49,125,710

(b) Depreciation and depletion deducted in the determination of net earnings are as follows:

	1978	1977
Depreciation	\$3,746,716	\$3,976,437
Depletion	44,917	47,437
	\$3,791,633	\$4,023,874

(c) Included in the cost of fixed assets at December 31, 1978 are fully depreciated assets with an original cost of \$11,305,000.

4. Other assets

Other assets consist of:

	1978	1977
Unamortized debenture expense (note 1(e))	\$ 90,845	\$103,875
Amounts due under share purchase plan (note 7(a))	43,943	112,638
	\$134,788	\$216,513

5. Long-term debt

Long-term debt consists of:

	1978		1977
	Due within one year	Long-term portion	Long-term portion
9¾% debenture due 1994	\$ 860,000	\$12,920,000	\$13,780,000
10% mortgages due 1981 to 1982	40,000	91,500	131,500
9¾% notes due 1981	119,738	166,627	286,365
Promissory notes, with interest at U.S. prime rate plus 1% (but not less than 8% or greater than 9%)			
"A" note, due 1980 to 1981 (U.S. \$1,250,000)	—	1,312,500	1,312,500
"B" note, due 1981 to 1983 (U.S. \$2,550,000)	—	2,677,500	2,677,500
Term bank loan, with interest at U.S. prime rate plus 1¾% (but not less than 8%) due 1979 to 1983 (U.S. \$3,000,000)	592,500	2,625,000	3,150,000
	\$ 1,612,238	\$19,793,127	\$21,337,865

The aggregate payments of principal required to meet debt obligations in each of the next five years are as follows:

1979	\$1,612,238
1980	2,554,197
1981	2,457,430
1982	2,394,000
1983	2,907,500

The debenture is payable in annual instalments of \$860,000 and is secured by a first mortgage on the manufacturing facility in Picton, by a floating charge on substantially all other property, plant and equipment of the Company and by a pledge of the shares of U.S. subsidiary companies. The agreement providing for the issue of this debenture requires that

consolidated working capital be maintained at a specified level and allows the payment of dividends up to 50% of post-1973 consolidated net income, provided that consolidated net tangible assets are not reduced below a specified level. At December 31, 1978 consolidated working capital and consolidated net tangible assets exceeded the specified levels.

The "B" promissory note is secured by a mortgage on land, buildings and machinery located in Essexville, Michigan.

The long-term portion of the U.S. debt has been translated to Canadian dollars at the rate of exchange at the date the debt was incurred. If the year-end rate had been used the long-term portion would have been increased by \$850,500.

6. Income taxes

The total deferred income taxes to December 31, 1978 amount to \$14,168,130 of which \$4,122,000 was not recorded in the accounts. Until December 31, 1967 deferred income taxes were reported by

note to the financial statements. On January 1, 1968 the Company changed its method and recorded subsequent deferred income taxes in the accounts.

7. Share purchase plan and stock option

(a) Share purchase plan

Under the terms of the share purchase plan for key executives, as amended in 1976, authorized and unissued common shares of the Company up to, but not exceeding, 200,000 shares in the aggregate may be allotted and issued to key executives. Shares are issued for a subscription price payable by way of a down payment and instalment payments extending over a period of not more than seven years. The subscriber waives all voting rights until the shares are fully paid. Shares may be allotted and issued at a price representing a discount of not more than 15% from the market price at the time of allotment. As at December 31, 1978, 76,000 shares had been allotted and issued as partly paid shares of which 25,000 shares at a price

of \$2.25 per share and 15,000 shares at a price of \$3.75 per share were allotted to an officer who is also a director and 10,000 shares at a price of \$2.60 per share and 2,000 shares at a price of \$3.75 per share were allotted to each of three other officers, one of whom is also a director. Of the 76,000 shares, 55,000 have been fully paid and no instalment payments were in arrears on the remaining shares.

(b) Stock option

An option, which was granted in 1969 to an officer who is not a director, to purchase 4,000 shares, which shares are reserved, at \$5.00 per share, was outstanding and exercisable as at December 31, 1978. This option expires in 1979.

8. Interest

Interest consists of:

	1978	1977
Long-term debt interest	\$2,213,419	\$2,022,724
Bank loan interest	393,592	637,701
Short-term deposits and other interest income	(31,854)	—
	\$2,575,157	\$2,660,425

9. Remuneration of directors and officers

During the year ended December 31, 1978, thirteen directors received aggregate remuneration of \$49,597 as directors. Seven officers, of whom three

are also directors, received aggregate remuneration of \$330,060 as officers.

10. Lease agreements

The Company has existing lease agreements, primarily for shipping facilities, but also for land, buildings

and equipment, the minimum annual aggregate rentals for which total approximately \$1,450,000.

11. Pension plans

Based on the most recent actuarial reports, unfunded past service liabilities amounted to \$3,408,481 at December 31, 1978. This amount, of which approximately \$1,600,000 is fully vested, is being expensed and funded over periods from 12 to 19 years.

The total charge against operations in 1978, with respect to past service liabilities, amounted to \$365,877 including interest.

12. Prices and incomes legislation

Under the Federal Anti-Inflation Act and Regulations, the Company was subject to restraint of profit margins, prices and compensation of

employees up to December 31, 1978 and to the restraint of dividends up to October 13, 1978.

Lake Ontario Cement Limited

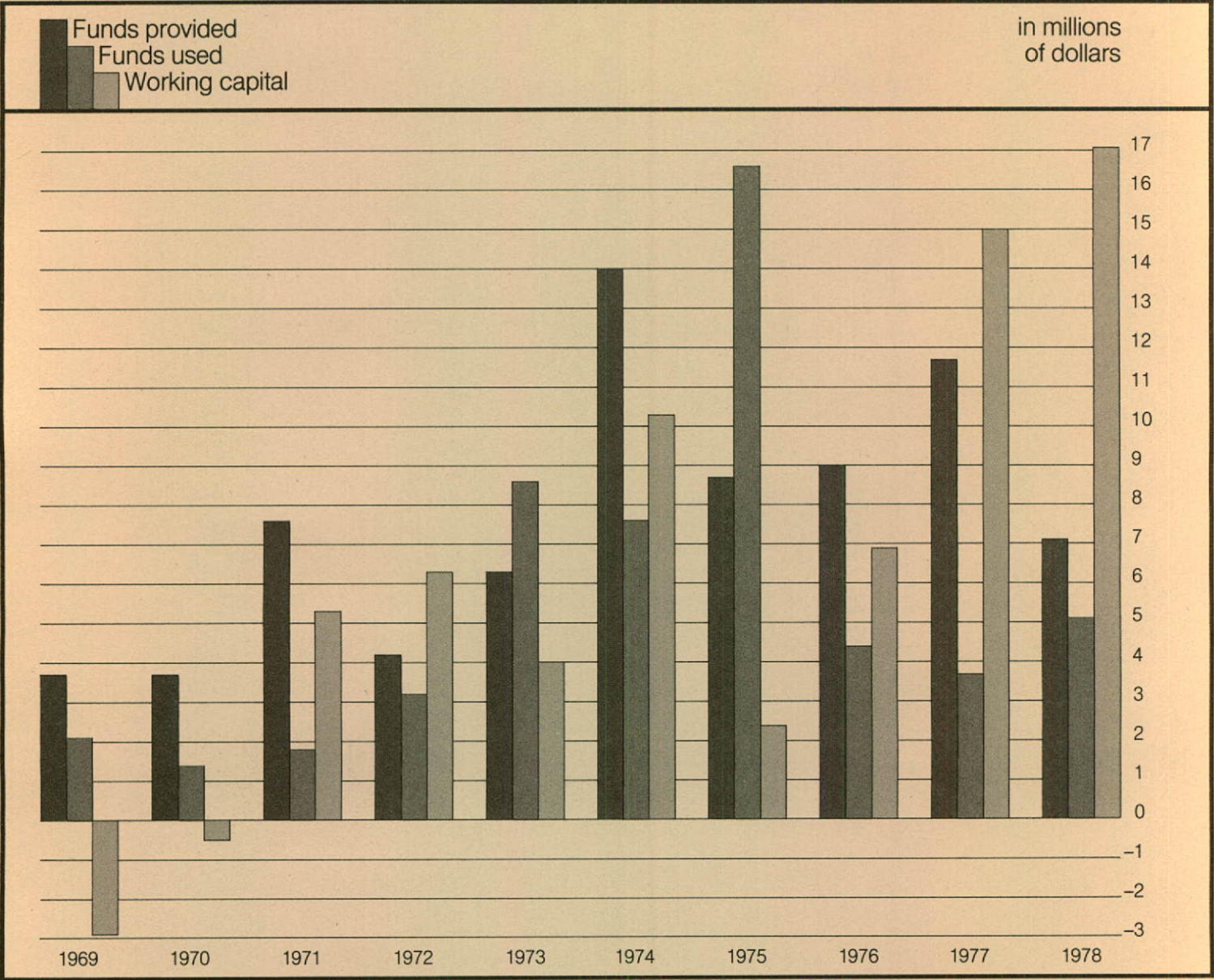
1969	1970	1971	1972	1973	1974	1975
\$21,736	\$22,617	\$26,443	\$27,338	\$34,883	\$39,398	\$41,833
16,651	18,246	20,576	20,926	26,483	30,155	31,469
5,085	4,371	5,867	6,412	8,400	9,243	10,364
2,164	2,198	2,273	2,348	2,758	3,152	3,688
1,174	1,084	987	1,098	1,124	1,089	1,545
3,338	3,282	3,260	3,446	3,882	4,241	5,233
1,747	1,089	2,607	2,966	4,518	5,002	5,131
805	555	1,292	1,440	1,818	2,230	2,045
942	534	1,315	1,526	2,700	2,772	3,086
112	34	109	274	213	226	128
87				(188)	482	111
\$ 1,141	\$ 568	\$ 1,424	\$ 1,800	\$ 2,725	\$ 3,480	\$ 3,325
4,223	4,223	4,223	4,278	4,302	4,302	4,302
27.0¢	13.5¢	33.7¢	42.1¢	63.3¢	80.9¢	77.3¢
				10.0¢	12.0¢	15.0¢
\$ 3.35	\$ 3.48	\$ 3.82	\$ 4.23	\$ 4.76	\$ 5.45	\$ 6.07
\$ 1,029	\$ 534	\$ 1,315	\$ 1,526	\$ 2,512	\$ 2,772	\$ 3,197
805	555	206	180	1,223	2,010	1,900
1,854	2,040	2,080	2,110	2,495	2,685	2,673
3,688	3,129	3,601	3,816	6,230	7,467	7,770
					900	900
	625	10,340	353		15,463	
36	(29)	69	26	66	60	6
3,724	3,725	14,010	4,195	6,296	23,890	8,676
1,957	1,206	1,381	2,758	6,983	5,913	15,262
98	98	6,600	239	707	10,041	124
	82	200	228	465	1,046	592
				428	516	645
2,055	1,386	8,181	3,225	8,583	17,516	16,623
1,669	2,339	5,829	970	(2,287)	6,374	(7,947)
\$ (2,885)	\$ (546)	\$ 5,283	\$ 6,253	\$ 3,966	\$10,340	\$ 2,393

Ten year financial summary

Figures in thousands, except amounts per share

1976	1977	1978	
			Operating results
\$54,845	\$64,641	\$78,364	Sales
44,810	53,167	64,186	Cost of sales
10,035	11,474	14,178	Gross profit
4,869	5,756	6,916	Selling, general and administrative expenses
(116)	(262)	(382)	Gain on foreign exchange
2,616	2,660	2,575	Interest
7,369	8,154	9,109	
2,666	3,320	5,069	Operating profit
1,126	1,262	1,902	Provision for income taxes
1,540	2,058	3,167	Net earnings before minority interest, income from investment and extraordinary items
55	50	17	Minority interest in net earnings of subsidiary company
			Investment income on equity basis
			(Loss)/gain on disposal of fixed assets
\$ 1,485	\$ 2,008	\$ 3,150	Net earnings for the year
4,302	4,302	4,302	Number of common shares outstanding
34.5¢	46.7¢	73.2¢	Earnings per common share
20.0¢	20.0¢	20.0¢	Dividends per common share
\$ 6.21	\$ 6.48	\$ 7.01	Equity per common share (after full provision for deferred income taxes)
			Source of working capital
\$ 1,540	\$ 2,058	\$ 3,167	Net earnings before minority interest, income from investment and extraordinary items
1,159	1,022		Income taxes, deferred
3,667	4,038	3,805	Depreciation and other non-fund items (net)
6,366	7,118	6,972	
900			Amount due on settlement of legal action
1,443	4,462		Working capital from acquisitions
85	104		Proceeds from long-term debt
185	11	119	Other transactions
8,979	11,695	7,091	
			Application of working capital
2,236	1,655	2,590	Additions to property, plant and equipment (net)
1,333	1,145	1,612	Reduction in long-term debt
			Current portion of deferred cost reduction, before income taxes
860	860	860	Dividends paid on common shares
4,429	3,660	5,062	
4,550	8,035	2,029	Increase/(decrease) in working capital
\$ 6,943	\$14,978	\$17,007	Working capital (deficiency)

Application of funds



Lake Ontario Cement Limited



The Company Logo

Two symbols from earliest times are combined to form the Lake Ontario Cement Limited logo. The  was once the universal symbol for stone, and  the sign for water.

Forms of cement were in use even before the Egyptian pyramid builders employed a gypsum plaster as mortar. The early Greeks used slaked lime. The Romans mixed finely ground volcanic rock with lime and water to build the Pantheon and Colosseum. Today, modern cement is made from special, finely ground  which is burned with other mineral substances. This cement is mixed with , sand and more  to make concrete which will endure for ages.

Canadian Cement Division

2 Carlton Street, Toronto, Ontario

J. D. Fowler, Executive Vice-President
B. T. Price, Vice-President - Operations
G. R. Wilson, General Sales Manager
W. F. Behan, General Credit Manager

Cement Manufacturing Plant:
Highway 49, Picton, Ontario

Sales Office:
2 Carlton Street, Toronto, Ontario

Toronto Distribution Plant:
312 Cherry Street, Toronto, Ontario

Windsor Distribution Plant:
210 Detroit Street, Windsor, Ontario

Ottawa Distribution Plant:
1815 Bantree Street, Ottawa, Ontario

Premier Concrete Products

2 Carlton Street, Toronto, Ontario

K. Bruce, Vice-President and
General Manager
S. W. Knott, Manager - Operations

Toronto and Hamilton area:
1625 Shawson Drive, Mississauga, Ontario
349 Kenora Ave., Hamilton, Ontario
A. S. Frayne, Sales Manager

Ottawa area:
1815 Bantree Street, Ottawa, Ontario
W. H. North, Area Manager

Windsor area:
5115 E. C. Row Avenue, Windsor, Ontario
R. K. Post, Area Manager

Aggregate Division

1625 Shawson Drive, Mississauga, Ontario
C. C. Husband, Manager

Subsidiary Companies

Aetna Cement Corporation

Main Street, Essexville, Michigan

J. D. Fowler, Chairman of the Board
I. M. MacLachlan, President
K. L. Neering, Vice-President -
Marketing and Sales
L. D. Van Sumeren, Controller and
Administration Manager
A. M. Walraven, Plant Manager

Primeau Argo Block Co. Limited

170 Brockport Drive, Rexdale, Ontario

A. J. Primeau, Chairman of the Board
R. H. Grimm, President & Chief
Executive Officer
W. A. Primeau, Executive Vice-President
R. J. Primeau, Vice-President Operations
E. Taylor, Secretary-Treasurer

Rochester Portland Cement Corp.

361 Boxart St., Rochester, New York 14612

Division:
Mohawk Valley Cement Company

W. M. Bateman, Chairman of the Board
R. L. Forde, President
J. D. Fowler, Vice-President
D. R. T. White, Vice-President Finance
and Secretary-Treasurer
H. W. Ingmire, Sales Manager

